

**COMMITTEE ON WATER AND SANITATION
AUDIT SUB-COMMITTEE**

Chairman: Mr. Timothy J. Callanan, Council District No. 2

Sub-Committee Chairman: Mr. Dennis L. Fish, Council Member District No. 5

A meeting of the **COMMITTEE ON WATER AND SANITATION, Water and Sanitation Audit Sub-Committee** of Berkeley County Council, was held on **Monday, December 21, 2009**, in the Supervisor's conference room, Berkeley County Administration Building, 1003 Highway 52, Moncks Corner, South Carolina, at 6:00p.m.

PRESENT: Committee Chairman Dennis L. Fish, Council District No. 5; Committee Member Timothy J. Callanan, Council District No. 2; Committee Member Cathy S. Davis, Council District No. 6; and Committee Member Caldwell Pinckney, Jr., Council District No. 7. Also present were Council Member Phillip Farley, Council District No. 1; Council Member Jack H. Schurlnknight, Council District No. 6; Mr. Joshua A. Gruber, County Attorney; Ms. Barbara B. Austin, Clerk of County Council. Committee Member and Supervisor Daniel Davis was absent from the meeting.

In accordance with the Freedom of Information Act, the electronic and print media were duly notified.

Chairman Fish called the meeting to order. Sub-Committee Member Caldwell Pinckney, Jr., gave the Invocation, and Sub-Committee Member Cathy S. Davis led in the **Pledge of Allegiance** to the Flag of the United States of America.

A. Mr. Larry Finney, CPA, Green, Finney & Horton, LLP, Presentation, re: Water and Sanitation Audit exit interview.

Sub-committee Chairman Fish began by saying, "The purpose for tonight's sub-committee meeting is to get an audit preliminary I guess you'd want to call it. Larry Finney is our auditor so I'll forward it to you.

Larry Finney responded, "Thank you Dennis. Good evening everybody. Let me make just a few quick introductory comments and then we'll dive in to reviewing the report and I'll get in to some of the details. The first thing that I want to do - because otherwise I'll forget - I want to mention that there's a lot of people who were a huge help in pulling this together. You can imagine there was quite a bit of time involved in doing all this and I'm not going to mention everybody because I'll end up leaving somebody out and I'll hurt somebody's feelings but there's 2 people in particular that I want to mention that had to put up with me for a long time and I felt sorry for them having to do so but Mike had me sitting down in his offices down there for quite a while asking for documents, pouring through things and he was a huge help. Secondly is Ms. Barbara over there. I don't know how many times I called or went to visit Barbara as we poured through and looked at a lot of different minutes, so I wanted to mention them 2 specifically. Secondly is I know that one of the questions that will probably come up at some

point at least in somebody's mind even if it doesn't get asked and that is 'What took so long?' We basically started our work in June once the engagement letter was signed and I will just tell you that I had – we probably had about 95% of this work done by the beginning of October and then it got into an extremely busy season for us and I basically had to put this aside for about 6-8 weeks and then pick it back up and finish it up so it took the amount of time it did not because of any problems or anything else but simply kind of my schedule and our schedule in terms of getting things wrapped up. The last thing that I'll mention is one thing that was very important throughout this project was there were several different issues that we addressed and there was a lot of information out there about these issues both verbal and what was in black and white and everything that you will see in our report is based up what we found in black and white, whether it's minutes, whether it's reports, whether it's spreadsheets – whatever it may be – I heard a lot of different things and if I could back it up with supporting documentation then that's great and that's what I did and we moved forward. So having said that let's pass these around Dennis (passes out booklets). If you will turn to the second page which is the Table of Contents (I just want to hit a few highlights here; we'll look at the actual Agreed Upon Procedures Report in a minute), then there's an Executive Summary. The Executive Summary is just what it sound like: it's taking all that detail and really putting - summarizing it so if somebody doesn't want to go through all the detail they can kind of get a big picture perspective pretty easily. We've got our detailed results then and then I've got a number of different exhibits that basically support of what we've got in our detailed report. What I've done - if you'll go to the next page what's on our letterhead which is the Agreed Upon Procedures Report - what this simply is is in essence a copy of the Engagement Letter that was signed with the different items and as you look at this what I want to point out is that Number 1 and 2 are very kind of general items, starting with Number 3 is where we get into the specifics and the way we've laid out this report is we've simply taken each item and you'll see that we've just taken it item by item through the report so it should be pretty easy to follow as we go through. Beginning on Page 3 you have the Executive Summary. We're going to skip that for now because I want to get straight into the detail and we'll have more than enough information as we get into the detail, so if you will go to Page 6 and you'll see, so the first 2 items there under the Detailed Results are Items #3 & #4 and I'm simply reiterating what's in the Agreed Upon Procedures Report and then providing the details so the first item relates to the actual original current sources and uses for the bond documents, the actual versus budget for interest income related to the construction funds as well as the justification for the \$105 million and the deferral of the interest payments. So what you'll see on pages 6 and 7 and Page 8 are simply a summary of each of the 4 bond issues that were a part of this project: the 03 Bond Issue, the 05A, the variable rate 06A, and then the 08A refunding issue of the 06 variable rate. And all I'm doing through Page 8 is just summarizing what the sources and uses for each of those statements were. Where I'd like to direct your attention is to Page 9 because what we do, the first half of Page 9 is talking about the actual interest income from these funds and I want to make sure that everybody understands that when it comes to that interest income on those construction accounts, those were not a part of a budget. In essence those funds are used very similar to a contingency fund so that if you have overages on any of the projects you've got some available funds there to use and I then just summarized what the interest income earned was on those projects. Now that table that's at the bottom of Page 9 is a summary in terms of the actual funds that were available for the capital project funds and so you can see that we have the 03 Bond Issue and the 05A Bond Issues so we had basically \$147 million that went into

the construction funds. We had another \$14 million in interest income, so we had \$161 million that was available for the capital projects. Then what's I've done and Exhibits A and B you can look at later, but that's where these numbers are pulled from. Then I list for the 03 Bond projects this is what was actually spent: the \$47,906,956 [**Note: The printed report shows the amount as \$47,906,596**]. Then for the 05A Bond Project's this is where we're at as of June 30, 09 and let me go ahead and say that we had to pick a cut-off date when Mike and I first started. We were going back and forth with information and we realized that if we don't pick a good cutoff date we're gonna get ourselves in trouble here in terms of what information's what so we used June 30, 09 so you've got the contracted projects from the 05A Bond of the \$52 million, then there's another \$47 million that was to be used for future contracted projects. And then on top of that you can see that even when we back all that out we basically still have that remaining \$14 million that is very similar to the amount of the interest income. Now that's not in essence, that's not really the way it worked because there were some projects that had been cancelled, others had been under budget, some had been over budget, but it just so happens that the way the numbers have fallen out that's where we stood as of June 30, 09 so that kind of gives you a summary of where we're at. Okay?

Page 10, I've got some discussion, one of the questions or one of the procedures that was included in the Engagement Letter was looking at the justification for the issuance of \$105 million of the 05 Bond Issue. And in summary there was really very little discussion in anything in black and white referring specifically to \$105 million. You can see the first meeting where the amount of the Bond Issue was discussed was in May, May 9, 05 where we simply said that what was approved or what was discussed and reviewed was the reading of an ordinance that said 'For the issuance and sale of the 05A Water and Sewer System Revenue Bonds in the principal amount not exceeding \$150 million' – that's the way it started. Okay? And then you can see I have detailed the remaining dates and actions regarding the 05 issue meeting by meeting. In essence we continued to discuss not exceeding \$150 million until we got down to the 4th bullet from bottom where you see Ordinance 05-06-47 dated June 20, 05, that's when we started talking about estimates the cost of acquisition and construction of 05A projects to be \$108.8 million, and that's when the Preliminary Official Statement was first approved and that basically continued until July when both the committee and the council also received the engineering report from ERC (Engineering Resources Corporation) that was connected with that bond issue. That when you look at the detail of the engineering report and again it's an exhibit I list there, Exhibit J, there is a detailed list of the planned projects that were to be funded with that bond issue. And that's how we got to the \$105 million. You'll see the last statement I make there is that there was no discussion in the minutes per se that really got down into detail about discussing the issue and less or more or anything else it was always along those lines of \$105 to \$108 million period.

The last item toward the top of Page 11 related to the first, to the bond issues, was there was a question about the deferral of the interest payments and there's basically 2 things there: 1 is that whenever bond issues, especially for a local government that has existing bond issues outstanding, whenever there is another bond issue being planned and you're looking at the payments the practice is to try to smooth out – in this case, smooth out the counties payments over the long period of time and so a lot of times what happens as part of doing that because there are other bond issues outstanding, a lot of times the interest and principal payments may be

less up front and then as some of those other bond payments are finalized and the bond's paid off, then the payments will increase on the newer issues and that's what we saw happening with these bond issues. The second thing is that in some cases there were the utilization of what we call capitalized interest. Many times, and it's a very common practice, it's not unusual – we work with over 40 local governments and many of our clients do this in order to help sometimes with cash flow when a bond is first issues some of the resources are taken and put into a pot called capitalized interest and are used to help make those first 1,2,3,4 interest payments just a part of helping with cash flow, so we didn't see anything unusual there at all.

The middle of Page 11 we begin discussion on Item #5 which is the Highway 311 and I know that's probably the biggest issue in terms of getting this all pulled together, so what I first spent a little time talking about there is Highway 311 was never really a project itself, okay – I'm going to talk about the Highway 311 Project but it was really a part of the bigger project called the Cross Area Water Project and what I do well 2/3 of the way down on Page 11 there, there's 3 issues that I really am addressing here: 1 is whether it appears Highway 311 was to be included in the Cross Area Water Project at the time County Council approved the project; #2 and this came up when I was doing my work there were a couple different descriptions for where the ending point was going to be on Highway 311 so I physically did a lot of driving and all to make sure that all those descriptions really made sense were they consistent or were they not consistent and then we also looked at the cost per tap for the Highway 311 piece of that compared to some others.

So let's talk about the inclusion of Highway 311 first. Let me say this at the very beginning: having spent as much time as we did looking at this - and Barbara's almost a Highway 311 expert at this point in time as much time as we've spent on all this - I can understand why there was a lot of confusion about Highway 311 and what was really going on with it. And the reason I say that is that if you start looking at these bullets that I have here toward the bottom of Page 11 in the Capital Improvement Programs for 04 and 05 Highway 311 was included in the description and it included a full description of the quantity, the size of pipe, etc., but when we get to Fiscal 06, the Capital Improvement Program for 06, 07, and 08 Highway 311 is no longer in the description of Cross Area Water Project and at the same time the quantity of 8-inch pipe is not included either. Okay? But if we go to next bullet in the 05/06 Capital Improvement budget there was a map that did not include Highway 311 so it did not show up there, okay, but then if you look at the request for qualification that went out in July 05 Highway 311 is not in description but it is included in the map at that time. If you look at the signed contract that was signed at the end of 05 and early 06 between BCWS and Engineering Resources, the map does include, it does include, Highway 311 but the description is not included. If you look at the notarized documents when the bid went out there is a map that does include Highway 311 in there and so it's really a mixed message. If you look at the descriptions and you look at the maps, I can understand why there was a lot of confusion about, you know, what is really going on here with Highway 311. At the very least there was what I would consider very poor documentation, very poor communication, very poor monitoring and reviewing of the information that was coming from Water & Sanitation to Council. Okay?

Having said that, there is some information that, even as included in the descriptions, that in my mind make me think that from Water & Sanitation's perspective they always intended for Highway 311 to be a part of the project. And if you look at the 3 bullets that are about 2/3 of the way down Page 12 I highlight what those are. Number 1 is from the very beginning of the plan it was always for Highway 311 to have 12-inch pipe being put as the infrastructure for that highway and if you look at every single description the quantity of 12-inch pipe never changes significantly, certainly not significantly enough for Highway 311 to be taken out, okay. The 12-inch pipe quantity was very consistent. Number 2 is, even when Highway 311 was not included in the description, Groomstown Road was included in the description and there's no good way that I could see, in looking at everything, to get down, get infrastructure to Groomstown Road without going down Highway 311 at least to Groomstown Road. And generally even though when we get to 06 Highway 311 is in essence left out of the description, it generally is still included in the maps that went along with the description. So I come back to my conclusion, my conclusion regarding Highway 311 is that, again, very poor monitoring, very poor communication, just not a very good job of the information that was put together to make sure that it was really good and complete that went from Water & Sanitation to Council, but I saw enough consistency with some of those things that made me think there always was a plan from Water & Sanitation to include Highway 311 in the Cross Area Water Project.

Council Member Schurilknight said, "Larry, what kind of time frame were you looking at when you were (inaudible) all of this up? When you were talking about the communication (inaudible)"

Larry Finney replied, "I went from ... well, I mean I really looked at all the information from the time Highway 311 was first included in the 2004 Capital Improvement Program, up until April 2008 when County Council approved the award of the construction of the project."

Sub-committee member Callanan said, "Larry you mention it was included narrative description did not include Highway 311 maps that were included that means that the maps that were included with that. What description and what maps are you talking about? Are you talking about ..."

Larry Finney responded, "The bullets up here that I talked about earlier back in the request for qualification – it's not in the description but it's in the map. Now, part of the difficulty in me evaluating all this is in some cases it was very difficult to tell what was given to Council and what was not. Sometimes I just, I just couldn't tell you for sure what was provided to Council and what wasn't, and that's why when I started trying to say okay what can I really conclude from all this I was trying to go back to even what was included in the descriptions because I know that's what Council was seeing whether they were seeing the maps or not."

Sub-committee member Callanan answered, "Right, but the concern I have is the way you describe it as it was included with the maps that were part of them but making an assumption that it was part of it when I can tell you right now – I have that package – and there was no maps there."

Larry Finney replied, "Right, which is why it says 'But it is unclear what maps were provided to Council' because I couldn't tell."

Sub-committee member Callanan said, "And so the - am I correct that if you had that laundry list of projects that were going to be part of this bond obviously some of them were priority other of them were wish lists...did we or do we yet have a process to - if something is on that list even though it's way down at the bottom is that assumed to be approved to be completed by Council I mean to be completed or does it have to go through Council again for approval? Do you see what I'm getting at?"

Larry Finney replied, "I understand what you're saying. Obviously I cannot answer that. I think that's really more of a question for discussion between Council and Water & Sanitation management in terms of making sure that you guys are all on the same page with that."

Sub-committee member Callanan said, "Okay."

Larry Finney continued, "Because one of the recommendations - you'll see when we get to the recommendations Tim - one of the recommendations I have is that Water & Sanitation's got to work a lot lot harder at having good, consistent, clear communication with Council and I think that's one of the issues that definitely needs to be addressed along those lines."

Sub-committee member Callanan said, "Okay."

Sub-committee Chairman Fish said, "One of the concerns, I think, is that back in 2003 or something went through that on that one list 311 were down like about 20 down the list. We had in the Minutes something for I think it was Mr. Jennings - we talked about the bond project cleared going to send the rest of them back for pricing for further and then it never ever came back to Council. Our assumption all along that 311 was never approved and that was based upon me even going back to the 03 bond where we had 6 or 7 projects we approved - the rest of them were what we called the Wish List and they never came back."

Larry Finney responded, "Right, and that's part of the reason and that's why I said it was difficult to tell what was given to Council and what wasn't. That's why beginning on Page 53 with Exhibit D, I have literally included every Capital Improvement Program starting with 04 going forward where you'll see - and I've only included the page that has Cross Area Water Project on it, so you can see on Page 53 Cross Area Water Project - this is for year ending June 30, 04 - was #28 on the list."

Sub-committee Chairman Fish replied, "Right."

Sub-committee member Callanan asked, "What page are you on?"

Larry Finney responded, "Exhibit D. I'm sorry, Page 25. Their number was 53 but it's Page 25. This is the 04 and so in 04 Cross Area Water Project was #28 on the list, but if you go

to the next page, Page 26, you'll see Cross Area Water Project for June 30, 05 jumps up to #21 on the list. It's #12 on the next page in 06. In 07, it's #7.

Sub-committee member Callanan asked, "So 06 is when 311 disappeared, right?"

Larry Finney replied, "Yes. 06 is where Highway 311 disappeared from the description."

Sub-committee Chairman Fish said, "And it's also missing from 07 as well."

Larry Finney said, "And 08."

Sub-committee Chairman Fish said, "And 08."

Larry Finney said, "Yep."

Sub-committee member Cathy Davis asked, "But you're just lumping it under the Cross Area Water Project, right? It's not spelled out..."

Larry Finney said, "It was always included as part of the Cross Area Water Project, so yeah."

Sub-committee Chairman Fish said, "In 3 consecutive budget years it was ruled off became a question because we knew that that was planned to be back-fed with the Lake Marion water feed in the future so it never became a question to Council from our perspective because it wasn't supposed to be done."

Sub-committee member Pinckney said, "Now there again there is no documentation to substantiate that either way as far as whether or not it was to be a part of the Lake Marion..."

Larry Finney said, "It is – and I didn't really get in to the whole Lake Marion because that was beyond the scope of these procedures..."

Sub-committee Chairman Fish said, "The discussion back then was talking about would back-fed with Lake Marion..."

Sub-committee member Pinckney said, "The thing is, there again, being a part of Council as long as I have, that had never been discussed in any meeting on County Council and if it was then it should have been documented, you should have had some documentation for it."

Larry Finney said, "Well, and let's hold off on that because we're gonna come back to that okay?"

Sub-committee member Pinckney responded, "Okay."

Larry Finney continued, "Page 13, I did look - and this is something I looked at you'll see - beginning in 2003 when we look at the detailed descriptions of the Highway 311 portion of the Cross Area Water Project, the ending point was written as, and I'll just quote: 'a 12" water main will extend westward along S.C. Highway 311 from its intersection with S.C. Highway 6 to approximately 2.4 miles beyond its intersection with County Line Road'. Later on that all changes to where it says, beginning in 08, 'From the intersection with SC Highway 6 to intersection with Pinckney Court' and so, you know, the natural question that raised in my mind when I saw different descriptions was, well, are those really the same and so I literally went out there and took that first description and measured it and drove it and it was and I mean that description's always been - even though the wording has changed - the intent was for that to be the same ending point all along."

Larry Finney continued, "The next issue is cost per tap and what we did is we simply took the rest of the roads that were a part of this project and broke them out individually so you could see what the cost per tap was. You can see it goes from a high, a low on Oakland Drive of \$1,918 per unit, to a high of \$12,400 per unit for Highway 311 and everything else is in between, and you can see they vary greatly. There are probably, I mean, we could have done this kind of stuff forever and looked at all kinds of different roads, obviously you're in a somewhat rural area out there so you might generally expect 'em to be a little bit higher, but I mean, clearly when you look at this Highway 11 is still the highest cost and if you average that entire project, that entire project the average cost per unit is \$8,581, so even then Highway 311's about 45% higher than the average. Now, a couple of things here. One is that I know, I went all the way back to 2003 and noted where there were some letters from the County asking for funding from Federal government going through your legislators..."

Sub-committee member Callanan commented, "Sure."

Larry Finney continued, "...to try to get some additional funding because the cost was so high and obviously for this particular part nothing ever came, but that was the intent I think initially was to try to get the additional funding to get that cost down. And I know from talking with - the other thing is - I know from talking to Water & Sanitation management that obviously cost is an important factor - it's not the only factor - but it's certainly something they've got to look at."

Sub-committee member Callanan asked, "When did ... the engineering contract was when ... 2006?"

Larry Finney responded, "Yea, it was signed - the final signature was January 26, 2006."

Sub-committee member Callanan asked, "And then the request for - I mean was it a formal CDBG grant request or ..."

Larry Finney replied, "It was letters to delegation - Clyburn, different Congressmen - asking for specific - for any funding that could help, and I can't remember whether ... I think CDBG....what's that?"

Sub-committee member Callanan asked, "If it was 2003 was the earliest date that you had, that was...do you remember..."

Larry Finney answered, "It was a year or two later."

Sub-committee member Callanan said, "Ok, so 2005."

Larry Finney said, "Yea, I think 2005 was about the latest that occurred."
Sub-committee member Callanan said, "So...okay, I mean, that's right along I mean they could have requested an engineering report under the hope that they were going to get..."

Larry Finney said, "Yea, they could have. I don't know."

Sub-committee member Callanan said, "I'm just...you're trying to figure out logic here..."

Larry Finney said, "Piece it together. Yeah. I know."

Sub-committee member Callanan said, "But the timing does match there, I think."

Larry Finney said, "Right."

Sub-committee member Pinckney said, "Let me inject something in regards to that. That request was to get water from Moncks Corner to the school, Cross Elementary and ..."

Larry Finney interjected, "Well, it was really both. The way they wrote the letters it was really the whole Cross area in total."

Sub-committee member Pinckney continued, "Right and my point is - is that - but that was the main thing because if they got it to the school the overall objection, the overall objective was they could do the same thing in District 7 that they did in District 8, then extend it to the households and that's what the request was as far as my understanding was when we went to Washington to make that request to Congressman Clyburn, Congressman Brown, DeMint, and the whole nine yards because I was a part of that trip."

Larry Finney said, "Right. Okay. Alright."

Sub-committee member Callanan asked Micah Miley, "Micah, did we ever find out how many people have tapped in to the 311 line?"

Micah answered, "I was working with Ed on that and he hasn't gotten the numbers to me yet. I'll have to check with Ed on that."

Sub-committee member Callanan said, “So, just coming back to the cost per tap, that is if every single person that could tapped in to that line it would be (inaudible).”

Larry Finney responded, “That was the number of units that were there at the time when the lines were gonna be added – that would have been everybody at that time.”

Sub-committee member Callanan said, “Within - that under the Ordinance at that time which is no longer in existence the mandatory time that would have been subject to the mandatory tie in or is it just units cause their home could be a distance from the street...”

Larry Finney interjected, “This is units.”

Sub-committee member Callanan replied, “Okay, so...”

Sub-committee Chairman Fish said, “Potential units.”

Sub-committee member Callanan replied, “Right, so some of these may not have been subject to the mandatory...if their homes were a little farther from the...”

Sub-committee Chairman Fish said, “14 have been major.”

Sub-committee member Callanan replied, “That's what I mean.”

Sub-committee Chairman Fish said, “One of the other questions is too is that Colin Martin at a meeting in the past had indicated that \$1.5 million in grants helped pay for this. Have you checked where the funds came from? Because he indicated he used the \$1.5 million of grant money to pay for this project. You didn't look at...?”

Larry Finney said, “Well, actually, if you go to – let me see if I can find it in here...”

Committee member Farley said, “I think it's at the bottom of Page13, the last 3 sentences says CDBG funds were received and utilized as part...”

Sub-committee Chairman Fish said, “We didn't get the CDBG grant specifically for...”

Larry Finney said, “...specifically for this, no...”

Sub-committee member Callanan replied, But that includes more than Cross schools when you say Cross projects” right?

Larry Finney responded, “Cross projects is everything. There's Cross Schools and there's Cross Area Water Project. Those are two ...”

Sub-committee member Callanan said, “And there's Northern Cross Area Water Project.”

Larry Finney said, "Yeah. There's..."

Sub-committee member Callanan said, "So you are including all 3 of those..."

Larry Finney said, "When I say that there was CDBG funding, yes. Alright, let's go on to Page 14 and the next item on the list, #6, was to look at the reasons regarding the 2000a refunding issues, you know, which really tie back to also the variable rate bond issue and looking at the cost, why we did what we did doesn't make sense and so what I've done is first of all on Page 14 when we first issued the series 2006a variable rate bonds I give you some detail there but in the table I basically summarize at that particular point in time this is what we were looking at is the series 2003 bonds, the portion that would have been refunded if we had not done the 06a, were gonna cost us \$61.4 million. By doing the 06a at that point at that rate we were looking at \$58.7 million. If we also subtract out the issuance costs we were looking at a planned savings of about \$2.2 million and that's what was discussed in the Minutes to the meeting, okay. If you'll look at what actually happened up at the top of Page 15, for the rest of 06 and for 07 we had a net savings of about \$37,000 when we compare what we would have had under 03 versus what we had under 06a, okay. In early 08 is when the municipal bond market just went nuts and that's when things really started to get out of control a little bit, that's when the credit rating on the insurance company was downgraded which resulted in the interest rates going up significantly on the variable rate debt and you can see right before that second table on Page 15 the actual interest rate paid as of April 08 was 7.066% compared to the intended rate of 3.75% so it was about double, so in essence until the refunding took place that second table there we see a big swing to where it cost us \$102,000."

Sub-committee member Callanan commented, "And that includes all issuing costs?"

Larry Finney replied, "Well, that's just comparing the actual net payments, 03 to 06a."

Sub-committee member Callanan responded, "Okay..."

Larry Finney continued, "Now, that's – I mean – obviously..."

Sub-committee member Callanan remarked, "Oh, I see what you're saying."

Larry Finney went on, "At that point though those numbers still aren't huge, okay, but I want you to go now to Page 16 and I've got 2 tables here for you and I want to go down to the bottom table on Page 16 first, okay, because if the County had continued with the series 06a bonds and never issued 08a refunding debt and this is assuming that the rates would have stayed at what they were, just a little over 7%, obviously who knows what they were going to do down the road, but at the time this decision had to be made the rates were a little over 7% it would have cost the County an additional almost \$13.4 million if you had stayed with the variable rate debt at those rates, okay. If you'll look in hindsight up above at that first table, okay, if we go back to the 03 bonds and we say, okay, let's compare – if we had stayed with the 03 bonds and had never issued the 06a or the 08 refunding debt, the County would have saved \$8.5 million, okay. So, honestly it's one of those things that, you know, when we look back, it's always easy to say how

I wish we would have done something different but in essence what we're saying is at the time we issued the 06a we were hoping for those \$2.2 million savings. We knew we were taking a risk. It didn't pan out like we wanted for it to so when we realized that the market was going against us and we issued the 08 refunding debt, obviously that was a good decision at that time based on the rates that were in existence.

Sub-committee member Callanan commented, "And I also wanted to ask you this and let me explain why I ask you this. It's always been my assumption – not an assumption, I've listened to the audio – that the information that we received from the financial firm was inaccurate when Council made the decision to go with the 2006a bonds and with that information being inaccurate we based our decision on inaccurate information. Had we not done that we would have stuck with the 2003 bonds and I wanted to know what the damage was as a result of taking inaccurate advice, and that is why – and so now you know – that the result of us taking that advice versus, because I don't think, and I think I've played this tape for you all before, if you listen to the information that we got, that you all got, the decision it made it seem like there was substantially less risk than there was and I think we should use this figure and discuss it with legal counsel...I know you discussed it earlier, but we decided against it because we got some quote from somewhere, I think it was from RSA, who said that there was no loss when we...there was no loss as a result of us refinancing in 2008 but now we're seeing it actually cost us \$8 million had we just stuck with it."

Larry Finney said, "And actually, RSA helped us with some of these calculations and all, so..."

Sub-committee Chairman Fish said, "The bottom line is what's the bottom line? How much did we lose bottom line? What if we had just stayed with 2003, if we had stayed with 2006, if we had stayed with 2008 but after – if the total bottom line – what was the total bottom line?"

Sub-committee member Callanan responded, "It's \$8 million because..."

Sub-committee Chairman Fish said, "\$8 million."

Sub-committee member Callanan responded, "... your option was to stick with the 2003. If you stuck with the 2003 we'd have \$8.5 million more now and that includes, so that figure includes all issuances."

Larry Finney said, "That includes all issues costs, it includes the swap payment that had to be made, I mean, it is everything, it's everything."

Sub-committee Chairman Fish said, "Okay."

Larry Finney continued, "Alright, Page 17, item #7, this is relating to looking at the selection of Bank of America and the termination of Ross Sinclair, I'm gonna make this pretty short and sweet, I mean, Bank of America was in essence – and I have selected there in quotes –

because in essence when you made the decision to go with the 06a bonds they were the vendor, you know, there was no RFP it was a matter of going with them when the 06a bonds were issued and I summarized the meetings there. If you go to Page 18, the middle of the page, when it came to RSA's termination if you go back again starting at the bottom there with the dates, there was an RFP that was issued for Financial Advisory Services when the County chose to use RSA - that happened in March of 05 and then in November of 05 is when there was a letter sent to Ross Sinclair saying that Water & Sanitation no longer wanted to use their services and RSA sent a letter back through their attorney acknowledging that they'd received that letter, so from my perspective it is what it is. Item #8 - this relates to the rate increases and I know there's been a lot of discussion about that as well and so what I've done here is the first paragraph talks about the fact that the rate increases were first mentioned in the Engineering Resources Corporation engineering report in July 05 and again that's included as Exhibit J and in there they talked about their assumption was so all of their financial projections were based upon an average of 20% increases in rates effective July 1 07 and I've got the other information there. In May - so that was in July 05 when they issued their report - in May 06 the Director of Water & Sanitation at that point when they were presenting the 06-07 Fiscal Year Budget then stated, and I've got it in quotes here, 'using cash flow projections, no water or sewer rate increases are anticipated for the next 5 years' and I even say here obviously that was a significant change from everything that had been discussed and all the expectations up to that point in time based on the engineering report. So that was in May 06, when we get to April 07 and we have a Water & Sanitation Committee meeting and that's when, now we've got a different Director, and the Director then says and you know, says that he wants to begin a rate study in July 07 that resulted in increases that were proposed by the Authority and presented to Council for the Fiscal year 08/09 fiscal year budget. At that point in time, obviously all kinds of questions were raised because we went from 20% rate increases in the engineering report to no rate increases for 5 years, now we have a rate study and we're talking about rate increases again. When you look at that history when that statement was made in May 06 for the 06/07 budget Water & Sanitation was receiving significant non-recurring one-time fees, the impact fees, etc. I believe that that statement was made based upon that fact. We'll talk a little bit later about the wisdom or non-wisdom of relying upon one-time fees but neither here nor there I think that's why that statement was made so when we get to all of a sudden July April 07 that we want to do a rate study now there's a lot of confusion and I can understand why, but the basis for doing that I think it what is really important and the question in my mind is when we said we're gonna do a, when Water & Sanitation said okay we want to do a rate study in 07, why? Well, it still all goes back to the 05 bond issue, the debt service payments that they knew were coming down the line, and the coverage ration that they knew was going to have to be met going forward. It all still comes down to that because even when you look at the projections it was 07 and 08 fiscal year is when you saw those coverage ratios start to become a problem. And ERC's projections were that July 07 is when you need to start, we need to have that rate increase, and so it all still goes back to 05, the rate study, the desire for the rate increases, the 06a variable rate debt really didn't have an impact on whether we needed to do that rate study or not, it still all goes back to the original bond issue, coverage rations, etc., in 05. Item #9 at the bottom of Page 20, that's an easy enough one, there's a question about the sources of the funding for expenses relating to a chemical spill that occurred in the fall of 04. Water & Sanitation had plenty of operating funds to cover those net costs that occurred there, we didn't see anything unusual with that at all. The last item, item

#10, relates to the approval process regarding some change orders for the Water & Sanitation facility on Highway 52 and the addition that took place. When we went through the timeline and again we've included it as an exhibit there's a pretty routine pattern that's followed but it did appear to us that there were 2 contract change orders that did occur prior to the final adoption of the ordinance by County Council, and I give you detail on those at the top of Page 21. I can understand Water & Sanitation thought process somewhat – the first one, the site prep contract that was really an authorization for additional time only, the other one, D.A. Architects and Nurick, was basically for moving the tower and generator that needed to be done for that addition and their thought process was well if the contractor's are getting ready to leave and it was such that the timing was such they were getting ready to leave prior to approval it's going to cost us a lot more money let's get this thing going but that did occur prior to final approval by Council and so I've noted that there. Having presented all that, at the middle of Page 21 there, there are 3 things in doing all this that I wanted to bring to your attention that I feel like were important items to note having finished this project. 1 is, I've already mentioned, I think it's pretty obvious at this point – that Water & Sanitation needs to work a lot harder at making sure that we have good, clear review and monitoring taking place before information goes to Council and then making sure we have good clear communication when we are communicating with Council. Number 2 is there were a number of items in working on this project where people mentioned things that they said to the best of their recollection occurred and yet there was nothing in black and white that we could ever find and so that second recommendation I have down there for everybody for Council, for management, etc., is you know, is just to consider if something if you really feel like something's important enough to make sure it gets included in the Minutes. What we see is a common practice with a lot of our other clients is they will in the meeting say 'I want this on the record' or something to that effect and then the Clerk or whoever knows that we need to be sure that that gets into the Minutes. The 3rd recommendation is and this goes back to when we were talking about the rate increases and we're gonna discuss this some more when we do our financial audit presentation in January because it's come up it's coming up again, but it relates to the fact that there's still and we certainly saw it here a lot of reliance upon one-time non-recurring fees for helping with our operating costs and I would encourage Water & Sanitation and Council and County management to make sure that we do what we need to do to move away from that because that's obviously not a good long-term practice to have. So everything beginning on page 22 are exhibits that are all referenced in the different places in the detailed results, and I know you're just getting this so obviously once you've had a chance to spend some time looking through this, you know, if we need to come back and have another meeting to talk further we can certainly do that.”

Sub-committee member Callanan asked, “Can we...can I just ask you a quick question about items 3 and 4? As of June 30 an uncommitted amount of money of \$14 million and that's projected with plan that are yet to be contracted...”

Larry Finney replied, “Yes, that's probably not the best word because there's less uncommitted it's kind of in our minds uncommitted, but yet we ...”

Sub-committee member Callanan continued, “So we are assuming that everything is, comes in at or below budget a minimum that we should have in there is that amount of money?”

Larry Finney answered, "If everything goes according to what was projected at June 30th 09, yeah."

Sub-committee member Callanan asked, "Do we have a practice anywhere at which point the remaining funds revert back to the general fund, because this is held in a separate account that we can't see."

Larry Finney responded, "Yeah, actually I think - and you guys might be able to help me out with this - but I think with those funds I don't think that they can be used for general operations, it's either (inaudible) projects or paying off debt, alright."

Sub-committee member Callanan said, "So when we get our figures every month we're seeing our fund balance but that's, there's an additional, I mean this is practically the size of our fund balance and so there's an additional chunk of money that I think we as Council need to be keeping an eye on as well you know because quite frankly - and I think I'm the one who asked for this..."

Larry Finney remarked, "On the income? Yeah..."

Sub-committee member Callanan said, "But I just want to make sure that we're accountable for all funds."

Larry Finney responded, "Absolutely - totally agree. Totally agree."

Sub-committee Chairman Fish remarked, "(inaudible) haphazard."

Larry Finney said, "So again I know that this is the first time that you all have seen this and I know you want to spend some more time looking at it so we, I'll be glad to come back at another time."

Sub-committee Chairman Fish said, "I think a lot of questions have come up about use of block grant money for projects, we need to take a look at that next... a lot of disagreement on how that got approved, you know it was in the budget but it never got approved so (inaudible) without approval, look at some of that. They've got documentation that the same road was listed on 3 different contracts when were these roads actually done which contract they put it on 3 contractors same road next thing we need to find out is when was that water done, which project paid for it duplications got into it more things kept popping up and popping up and popping up and popping up, so I don't think we're done with this yet. But you did what we asked you for. Appreciate it, Larry. Does anybody have any other questions?"

Sub-committee member Callanan said, "I do have one other question which is if we have you come back I think because this has been in the paper a lot there's probably some interest in the public and I don't think there's any - because of the short notice on this - I think if we have you come back on this at a regular committee meeting I think would be appropriate."

Larry Finney responded, "I actually got a call from Dan Brown while I was driving down here saying that he could not be here but he was hoping that he could talk with me the next day or two, so..."

Sub-committee Chairman Fish said, "No other reason that we did that was in deference to you, you're down here, let's make it happen while you're here in town...."

Larry Finney said, "Right, and let's at least get the information in you guys's hands, you've got it and we can move forward."

Sub-committee Chairman Fish said, "(inaudible) see you driving back and forth to Greenville..."

Sub-committee member Callanan asked, "When are you coming down for the..."

Larry Finney replied, "The 11th. January 11th is when we'll be here for the..."

Sub-committee member Callanan asked, "And that's for the Finance Committee and for the audits and for Water as well?"

Larry Finney replied, "It's the all financial audit for, yes, it's for the whole shootin' match."

Sub-committee member Cathy Davis remarked, "One audit?"

Sub-committee member Callanan said, "Just one audit?"

Larry Finney replied, "Yeah, it's just considered one audit, but yeah, you get information on both."

Sub-committee member Callanan said, "Would it make sense to do it at the same time..."

Sub-committee Chairman Fish said, "Let's find out what the (inaudible)"

Larry Finney said, "Yeah, let me know what you guys want me to do..."

Sub-committee member Callanan said, "I know it's short notice for y'all, but..."

Committee member Schurlknight said, "(audible) that's my committee. Mrs. Barbara, now, I'm scheduled for the second meeting in that month - the end of January?"

Barbara Austin replied, "Typically it would be the 25th but we can call a Special Finance Meeting on the 11th."

Committee member Schurlknight asked, “Does it make any difference between the 11th and 25th to you Larry?”

Larry Finney said, “If you’d rather wait til the 25th we can wait til the 25th.”

Sub-committee Chairman Fish said, “But does that (inaudible) on the finance committee that’s on the 25th not the 11th.”

Larry Finney said, “Well, we just had an exit conference with Kaycee and Dan prior to meeting with Jack and that was just the meeting we discussed, but if we need to meet the 25th, that’s fine. I don’t have a problem with that.”

Committee member Schurlknight commented, “I don’t know if you know the 11th taking any precedent over the 25th or not (inaudible) the end of meeting. Why don’t we do the 25th it gives them a little more time to digest this right here and we can...”

Larry Finney responded, “So January the 25th, that’ll be the plan.”

Committee member Schurlknight said, “Okay.”

Sub-committee Chairman Fish said, “With that, I would entertain a motion to adjourn.”

It was moved by Committee Member Schurlknight and seconded by Committee Member Cathy Davis to **adjourn** the Committee on Water and Sanitation, Water and Sanitation Audit Sub-Committee meeting. The motion passed by unanimous voice vote of the Committee.

The meeting ended at 7:09 p.m.

March 22, 2010

Date Approved